THE CAUSES AND AUTHORS

OF THE

FINANCIAL DEPRESSION,

WITH PASSING HINTS AT

REMEDIAL MEASURES;

AND

FRENCH FINANCE.

BY

HON. WM. D. KELLEY, M. C.

PHILADELPHIA:
HENRY CAREY BAIRD & CO.,
INDUSTRIAL PUBLISHERS, BOOKSELLERS AND IMPORTERS,
810 WALNUT STREET.
1877.

Social Science, Political Economy, the Currency and the Finances.

BAIRD.—Argument of Henry Carey Baird before the Committee on Ways and Means, March 9, 1876. In opposition to the issue of $500,000,000 of 30 year $4\frac{1}{2}$ gold bonds. 8vo., paper, - - - - - 20 cts.

Bank. By Henry Carey Baird. Reprinted from the American Cyclopædia, 1874. 8vo., cloth, - - - - - - - - - - $1.00

Criticisms on the Recent Financial Policies of the United States and France. 8vo., paper, - - - - - - - 10 cts.

Germany. The Crime of Incompetent Governorship, as illustrated by the recent Financial and Monetary History of Germany. 8vo., paper, 10 cts.

Lessons from Abroad. Observations that point Morals. 8vo., paper, 5 cts.

Letters on the Crisis, the Currency, and the Credit System. 8vo., 10 cts.

Money. Reprinted from the American Cyclopædia, 1875. Paper, 75 cts.

Money and Its Substitutes. Commerce and Its Instruments of Adjustment. Reprinted from the Atlantic Monthly, March, 1876. 8vo, paper, 10 cts.

Political Economy. Reprinted from the American Cyclopædia, 1875. 8vo., paper, - - - - - - - - 75 cts.

Protection of Home Labor and Home Productions necessary to the Prosperity of the American Farmer. 8vo., paper, - - 10 cts.

Sherman's Silver Theory. Its Soundness Disputed. Paper, - 5 cts.

Some of the Fallacies of British Free-Trade Revenue Reform. Two Letters to Prof. A. L. Perry, of Williams College, Mass. 1870. Paper, 5 cts.

The British Credit System. Inflated Bank Credit as a Substitute for "Current Money of the Realm." 8vo., paper, - - 10 cts.

The Eastern and the Western Questions. Turkey and the United States: How they travel a Common Road to Ruin. Addressed by way of warning to President Hayes. 8vo., paper, - - - - 10 cts.

The Lesson of German and French Finance. A Reply to the N. Y. Nation. 8vo., paper, - - - - - - - - - 5 cts.

The National Finances. 8vo., paper, - - - - - 5 cts.

The Results of the Resumption of Specie Payments in England, 1819-1823: A lesson and a warning to the people of the United States. 8vo., paper, 10 cts.

The Rights of American Producers, and the Wrongs of British Free-Trade Revenue Reform. Paper, - - - - - - 5 cts.

The United States Treasury: The American Car of Juggernaut. 8vo. paper, - - - - - - - - - 5 cts.

BERKEY.—The Money Question. The Legal Tender Paper Monetary System of the United States; an Analysis of the Specie Basis or Bank Currency System and of the Legal Tender Paper Money System; together with an Historical Account of the Money as it has been instituted in the Principal Nations of Europe and in the United States. 12mo., cloth, 348 pages, - - - - - - - - - - - $1.50

BURTON.—The Curse of Gold and the Philosophy of Currency. 8vo., paper, - - - - - - - - - 10 cts.

BYLES.—Sophisms of Free Trade and Popular Political Economy Examined. By a Barrister (The Right Hon. Sir JOHN BARNARD BYLES, Judge of Common Pleas). Fifth American, from the Ninth English Edition, as published by the Manchester Reciprocity Association. 12mo., cloth, $1.25

CAREY.—The Works of Henry C. Carey;

Colwell; A Memoir of STEPHEN COLWELL. (1871) Paper, - 38 cts.

Commerce, Christianity and Civilization, *vs.* British Free Trade. Letters in reply to the *London Times*. 1876. 8vo., paper, - - 38 cts.

Contraction or Expansion? Repudiation or Resumption? Letters to Hon. H. McCULLOCH. (1866) 8vo., paper, - - - 50 cts.

Currency Inflation: How it has been produced, and how it may profitably be reduced. (1874) 8vo., paper, - - - - 50 cts.

THE

CAUSES AND AUTHORS

OF THE

FINANCIAL DEPRESSION,

WITH PASSING HINTS AT

REMEDIAL MEASURES;

AND

FRENCH FINANCE.

BY

HON. WM. D. KELLEY, M. C.

PHILADELPHIA:
HENRY CAREY BAIRD & CO.,
INDUSTRIAL PUBLISHERS, BOOKSELLERS AND IMPORTERS,
810 WALNUT STREET.
1877.

THE CAUSES AND AUTHORS

OF THE

FINANCIAL DEPRESSION.

WITH PASSING HINTS AT REMEDIAL MEASURES.

By Hon. Wm. D. KELLEY.

[*From the Iron Age.*]

When the war closed in June, 1865, the question of reconciliation and reconstruction became paramount. Whatever measure would promote social intercourse between the people of the North and those of the South, or tend to involve them in common interests, was one of highest patriotism, and entitled to the support of every department of the Government and of the citizens of every section of the country. The army and navy had done their work, and the pursuits of peace invoked the fostering care of statesmen and social economists.

To say that the South was prostrate, is to inadequately express the fact. Her people were dispirited and almost destitute. Their fenceless and untilled fields were without stock or implements of husbandry. Their homes were in ruins. Their industrial system was not only demoralized, but had been overthrown; and, after the protracted and terrible paroxysms of war, they were in the condition of a patient whose frame, worn well-nigh unto death by fever, had sunk into that typhoid state in which heroic treatment would be fatal, and the object of physician and nurse must be the strengthening of the system and the restoration of vitality and circulation by the use of such stimulants as the extremity of the case would permit. Little less grave and difficult of solution were the questions then arising in the North. During the war the government had been the great customer, and, by its special necessities, had given direction to the forms of industrial development; but, with the return of peace, the demand for ships, arms, clothing and other munitions of war was to cease, and capital

must discover new and profitable employment for the skilled men previously employed, and those who, having served in the army and navy, were to return by hundreds of thousands to the walks of civil life.

Where these discharged soldiers would settle, and what part they would take in the restoration of prosperity, were questions demanding grave consideration. Many of them had learned by observation that the South was not a purely agricultural region—was not, as they had believed, one vast cotton, tobacco, rice and sugar field; but that, while it was wonderfully endowed with the capacity to produce these elements of national greatness and independence, and might rival India in the production of jute, ramee and other fibrous plants, it was capable of producing all the grains, fruits, trees and plants they had known in the North, or the distant countries in which they had been born; that its minerals were more varied and richer than those of the North, and included gold, cinnabar, corundum, the peculiar ore for speigelizen, and others which are rare or unknown at the North; and that all these were attended by a climate and seasons which lessen the exactions of labor and increase the charms of life. Men from New England and the cold Northwest had been incredulous when told that in Georgia, Texas and elsewhere throughout the South, corn could be planted with the absolute certainty that the season would permit it to ripen and be gathered from fields from which a luxuriant crop of wheat had been taken in May, and that a volunteer crop of potatoes, equal almost in size and quantity to the cultivated crop, followed the latter in almost every field. But when their eyes beheld these things, their incredulity yielded, and they believed.

That, in view of such facts, there was a general impulse among the more intelligent and enterprising workingmen of the North to settle in the South, is not remarkable. Nothing could have been more natural or more beneficent than such a movement; and, but for the restrictive financial policy announced by Mr. McCulloch in the latter part of 1865, upon which he entered in 1866, and which, with the sanction of Congress, has been pursued by all his successors in the Treasury Department, such emigration, guided by intelligent enterprise, and sustained by abundant capital, would have penetrated every Southern State, and, under its benign influence, long ere this, the era of good feeling, which we hope is now dawning, would have been a consummate experience. How different would then have been the history of the last decade! Whose pen will attempt to depict the marvelous progress the South would have made under such an impulse of enterprise, skill and capital: to tell how many prosperous villages with school-houses and churches would have risen beside the abounding water-power that flows through her cotton fields, or in the midst of her rich deposits of coal, iron, copper, zinc, nickel, and other metals; or to indicate which of her chief towns would now be

thriving cities, connected with each other by railroads, which, under the continuance of our present financial policy, will be premature a century hence? Mine will not essay the task.

How shall we set to work these millions of able-bodied people, including the freed people and poor whites of the South and the disbanded soldiers and sailors of the North—at such wages as will enable them, while largely consuming each other's productions, to make generous commercial exchanges with foreign countries?—should have been the all-absorbing question among those charged with the administration of the Government. There was special need for the labor of all of them: for there was not only no surplus of goods on the market, but never had there been a time when, measured by the necessities of millions of people, and their ability to produce the means of paying for them, an increased supply of general commodities was more urgently demanded. The fields of the South were to be fenced and stocked with cattle and implements; ancient homesteads were to be rebuilt, and new ones created and furnished; desolated and decaying cities and towns were to be restored, and the whole people were to be reclothed.

Dogmatists and doctrinaires are burdening the press with plans for the extension of our foreign trade as a means of relieving our people from want and despair begotten of enforced idleness; but none of them seem to conceive the magnitude of the home market that then opened upon us (and which, under a more statesmanlike management of our debt and currency, is still open to us), or condescend to discuss the social and political consequences that would have followed our entrance upon it. The offer of work at remunerative wages would have tempted the undisciplined poor of the South into habits of industry and thrift, and would have enabled freedmen and poor whites alike to imitate their more fortunate neighbors in the occupancy of homes with floors and the enjoyment of tables, chairs, plates, spoons, knives, forks, simple cottage furniture, and even such luxuries as carpets and wall-paper. The increased demand for these, and the infinitude of minor articles that are found in the homes of small farmers and skilled laborers in the North, would have taxed our producing capacity:—for the prosperity that would have attended such an extension of our market would have augmented the tide of immigration, which in 1872 reached 450,000 per annum, but which, under the policy of resumption by contraction, steadily shrinks to smaller numbers. The adoption of this stimulating policy of development must have obliterated antagonism between the sections, by establishing the fact that identity of interest results from diversity of productions. The demands of the South upon our workshops would have secured employment in legitimate channels to the labor and capital of the North; while the ability to furnish an increased supply of cotton, tobacco, rice, sugar, naval stores, and a growing quan-

tity of ramee, American jute and other fibres, would have brought the comforts and conveniences of life to which I have alluded, within the easy reach of every thrifty family of the South.

Could the people of the South then have been furnished, in exchange for fields, mines, or water-power, with money to enable them to engage in improving their condition by the application to the property they retained of the industrial methods and appliances of the North; could they have seen their countrymen come among them to help build up their waste places, and beheld immigrants from Europe landing by thousands at their wharves, they would have been diverted from politics. Industrial prosperity would have become their leading object, and politics have soon come to be regarded as an incident, and not the supreme object of life. The prosperity that would have attended this reorganization of labor, and the infusion of these new industrial elements, would also have demonstrated to the most obtuse the value of the services of the docile and faithful laboring people upon whom they had previously relied, and who are familiar with all their ancient industries. And more than all this, though but a secondary effect, long before this every prosperous person in the South would have been bound to the Union by the strong ties of direct personal interest. That where the treasure is there will the heart be also, is true now as of old; and had not McCulloch departed from the policy of Chase, vast amounts of the public debt now held by foreigners would have passed into the possession of the Southern people, who being the recipients of a large share of the taxes collected by the Government, would not have tolerated the efforts now frequently made by the baser sort among them, to escape taxation even by means of conspiracy and fatal violence. Prosperity would have brought peace to the country.

These are not the unsubstantial fancies of a Utopian. They are results that lay in the pathway of our progress as inevitable consequences of causes then in active operation. To avert them required the diversion of the course of events by active and efficient measures. Had Mr. Secretary McCulloch been content to let well enough alone, and so far as the national debt and currency were concerned, to travel in the established paths of experience, the wonderful story of the rapid recuperation of France after her prostration by Germany, would have had a precedent in our history so far exceeding hers in the splendor of its results, as to have made what is now regarded as that page of her financial history which records the marvelous, seem natural and commonplace. Lincoln, Chase, Stevens, and the practical men with whom they consulted, had given us a financial system which, while providing for the expenses of the war, had furnished an adequate medium for such freedom of exchange between individuals as to have induced the creation of wealth as by magic. Let me not be understood as speaking of imaginary profits, or fortunes nomi-

nally increased by the inflation of prices, or any other unreal and unsubstantial thing. I allude to solid wealth—to the subjugation of prairie, hill-side and woodland to the purposes of civilization and settlement; to the creation of towns and the enlargement of cities; to the opening of mines, the construction of furnaces, forges, mills, and the utilization of water-power by the erection of factories and factory towns where land and water had both been waste; to the founding of schools, colleges, scientific institutions, and the erection of churches of all denominations, all of which had gone on between 1862, when the greenback was issued, and 1873, when, by its partial withdrawal, and the retirement of every other form of national credit which had been used as money, our financial system collapsed, and in place of social, intellectual and national progress, bankruptcy, poverty and despair began to overshadow the land.

By referring to Secretary Chase's last report, transmitted to Congress on the 10th of December, 1863, Mr. McCulloch would have found a chart marking all the financial shoals and quicksands that endangered the ship of state, and channels thoroughly sounded and amply buoyed, by sailing within which her voyage to the haven of unquestioned prosperity would have been calm and brief. He would there have learned how "the great evils brought upon us by the war might be transmuted by a wise alchemy into various forms of utility;" how, "from the bitter root of debt, great good might grow," and that $400,000,000 of national notes, with a reserve of $50,000,000 to meet convertible bonds, then known as temporary loan certificates, "if presented in excess of current deposits," had been found to be not in excess of the legitimate demands of the business of the country, or instrumental in inflating prices. On the last point Mr. Chase said:

"It is an error to suppose that the increase of prices is attributable wholly, or in very large measure to this circulation. Had it been possible to borrow coin enough, and fast enough, for the disbursements of the war, almost if not altogether the same effects on prices would have been wrought. Such disbursements made in coin would have enriched fortunate contractors, stimulated lavish expenditures, and so inflated prices in the same way and nearly to the same extent as when made in notes. Prices too would have risen from other causes. The withdrawal from mechanical and agricultural occupations of hundreds of thousands of our best, strongest and most active workers, in obedience to their country's summons to the field, would, under any system of currency, have increased the price of labor, and, of consequence, the prices of the products of labor; while the prices of many things would have risen in part from other causes, as, for example, the price of railroad bonds from vast increase of income through payments for military transportation, and the price of cotton from deficient supply."

Unfortunately for the country, the administration of which Mr. McCulloch was a member, was not composed of practical statesmen like Mr. Chase, but of doctrinaires, who, influenced by the false teachings of pur-

blind and shallow schoolmen, ignored the palpable truth that it is labor and not coin that supports the public credit and the framework of society. Regardless of the function of money, which is the life-blood of trade, they considered only the material of which, in their judgment, it should be made, and, in order to make it as costly and as difficult to be obtained as possible, resolved to withdraw paper, and, let the experiment bring what disasters it might upon industry and enterprise, to attempt to use gold as the sole legal tender of the American people. They applied heroic treatment to a typhoid patient. The system taught by their school required blood-letting; and though they knew the patient would probably die under the operation, bleed him they would, if but in honor of the professors at whose feet they had studied. In other phrase, they determined to reduce the amount of money in circulation, to increase the value of its unit, and to give the holders of national, state, municipal, corporate and private debts, in payment of interest and principal, dollars which, measured by the average product of the labor of a day or yield of an acre, were two, four, or six times as valuable as those contemplated by both creditor and debtor when the obligation was contracted. They did not pause to consider whether the scheme was practicable. They would brook no discussion of their simple proposition that a gold dollar was intrinsically worth more than a paper dollar (which, when regarded simply as commodities, was a truism not to be disputed), and proceeded to make the experiment, let it cost the people what it might, and whether or not it could prove ultimately practicable.

The first of the inevitable results of this stupid or wicked policy was to make money scarce and increase the rate of interest on loans to individuals. Scarcity of money and high rates of interest produced industrial paralysis, and deprived labor of employment and laborers of the power to consume the products of each other's toil. Trade and commerce felt the shock. Each additional discharge of laborers or material reduction of wages, further contracted the market. Bankruptcies became frequent, and confidence was shaken. Capital was not needed to pay idle laborers; there ceased to be a market for money, and, ceasing to circulate, money concentrated in the Treasury and the vaults of the banks as dead capital. Our shallow philosophers pointed to the fact that money had lost its use, and was lying idle, and claimed this untoward condition of things as proof that money was superabundant, that the currency was inflated, and pointed to the shrunken and depreciating stocks of goods in the warehouses of ruined merchants as evidence that an excess of money had caused a blameworthy over-production of commodities. And even now, when real estate does not earn rent, or money beget interest, and labor is denied the opportunity to earn wages, our rulers refuse to investigate the condition of the people, but, counseled by the oracles of the schools, whose faces

should be on the back of their heads, as their eyes are ever turned toward the past, attempt to pacify the starving masses by crying out "over-production," and demanding the discharge of other laborers, and the further reduction of wages and prices generally as essential preliminaries to the establishment of gold payments.

To this end the Government employs syndicates to induce foreigners to accept mortgages upon the land and annual earnings of the people, and, in order to accomplish this undesirable purpose, binds posterity by issuing bonds to run for a period so protracted that the bare suggestion of it would have made Mr. Chase recoil from him who submitted such a proposition as from one who would barter the interests of his country. As Secretary of the Treasury he deplored the fact that extreme exigencies compelled him in 1861, upon the breaking out of the war, to consent to the issue of a small amount of bonds which had so long as twenty years to run; and yet Secretary Sherman demands plaudits from his countrymen for having induced foreigners to take our bonds with thirty years to run. On this point Mr. Chase was most explicit. On page 14 of his report, above referred to, he said:

"The object of future controllability has also had a prominent place in the regards of the Secretary. Under the conditions which existed at the outbreak of the rebellion, he acquiesced in the necessity which seemed to dictate the negotiation of bonds payable after 20 years; *but he acquiesced with reluctance*, and, as soon as permitted by circumstances, recommended the enactment of laws authorizing the issue of bonds payable after shorter periods, as well as the creation of temporary debt in other forms. In harmony with these views, Congress provided for the issue of the bonds known as the 5-20's; and also for the issue of Treasury notes payable three years from date, for certificates of indebtedness payable in one year, *and for temporary loans by deposits reimbursable after ten days' notice.* At the last session, Congress repealed some embarrassing restrictions of former acts, and authorized the issue of bonds payable after ten years, and of Treasury notes payable at pleasure or three years from date. *These Treasury notes were made legal tenders for their face value, or convertible for amount and interest into U. S. notes.* [Greenbacks.]

"The Secretary availed himself of this legislation, by placing with the people as large an amount as possible of 5-20 bonds, and by using the other powers so as to put the whole debt, except the long loans first negotiated, in such a shape that prompt advantage can be taken of favorable circumstances to diminish the burdens it imposes on industry.

"Whenever the constitutional supremacy of the nation shall be re-established over all its parts, *it will be within the power of Congress and the Secretary to fund the whole or any part of the temporary debt in bonds having a very moderate interest, and redeemable at the pleasure of the Government after very brief periods, or perhaps at any time after their issue.* Nothing further seems desirable on the score of controllability."

Mr. Chase saw that the proper fund for the payment of taxes was the current profits of the people. He knew that so long as the taxes absorbed

but a percentage of current profits, the people would pay them without regarding the government as an oppressor, as they do now when no form of productive industry yields a profit, and citizens are impoverished by paying their annual taxes out of their shrunken principal; and he therefore recognized the vital necessity of maintaining a medium adequate in amount to secure the most perfect freedom of exchange and the largest possible production of exchangeable commodities. The first object to be considered was, in his judgment, the prosperity of the people—the source of all public revenues. The next was the controllability of the debt, that it might under all the varying circumstances of the country and financial conditions of the world, be so managed as to impose the least possible burdens upon the people, and abstract the smallest possible percentage from their profits. To this end he sought to keep the debt at home, and make the American people the sole creditors of the American Government, and announced as a controlling proposition "that the burdens of debt, always heaviest when loans are held by a few, and especially by foreigners, diminish in proportion as the receivers of interest become identified with the payers of taxes."

The idea of transferring our debt to foreigners was repulsive to him from the first. On this point I have personal knowledge, having, at a very early day after Congress made provision for a loan, been selected, by the representative of a number of German capitalists, as a medium to offer the Secretary $40,000,000 on 20-year bonds. He heard the proposition, and remarked very quietly in reply that it would be time enough to seek foreign aid when the American people failed to provide the treasury with means, and requested me to be at the hotel at which the agent was stopping in thirty minutes, that I might receive and deliver to him his answer in writing. At the appointed time the answer came, and was, as nearly as my memory serves me, and I think it is accurate, "The Secretary declines to seek funds in foreign markets for the present, and hopes to be able to rely on the resources of the American people for the means of carrying on the war." The following passages from the report from which preceding extracts were made, illustrate Mr. Chase's views on this point, and sustain the belief I have expressed, that the retention of the national debt in this country would have been a potent bond of union between the people of the different sections:

"The final object of the Secretary was to extract from the unavoidable evil of debt as much incidental benefit as possible.

"To this end he desired authority *to receive temporary loans in the form of deposits reimbursable after a few days' notice.* This measure was regarded by many with something less than favor at first; but Congress, after full consideration, authorized the receipt of such deposits at an interest not exceeding five per cent., to the amount of $25,000,000; then raised the limit to $50,000,000, and then to $100,000,000, *and pro-*

vided a reserve of $50,000,000 of United States notes to meet demands for reimbursements beyond other convenient means of satisfaction. It was not long before these deposits reached the highest limit, and before the flow could be well checked, somewhat exceeded it.

"The utility of the measure was very conspicuous on the recent occasion of great stringency in New York, when the Secretary was able to reimburse over fifty millions of these deposits during the last weeks of the year; by which action the pressure was sensibly alleviated, with the use of only a fifth of the reserve. In former reports the Secretary has stated his convictions, and the grounds of them, respecting the necessity and utility of *putting a large part of the debt in the form of United States notes, without interest, and adapted to circulation as money.* These convictions remain unchanged, and seem now to be shared by the people. *For the first time in our history has a real approach to a uniform currency been made,* and the benefits of it, though still far from the best attainable condition, are felt by all. The circulation has been distributed throughout the country, and is everywhere acceptable. So, too, real and great advantages are derived from the wide diffusion of the debt among the people, through business transactions, and through the exertions of the officers of the departments, and the agents for loans, already noticed. *It is impossible to estimate the advantages to national unity ana national strength secured by this distribution.* Every holder of a note or bond, from a five cent fractional note to a five thousand dollar bond, has a direct interest in the security of national institutions and in the stability of national administration. *And it is another and no small advantage of the distribution that the burdens of debt, always heaviest when loans are held by few, and especially by foreigners, diminish, in proportion as the receivers of interest become identified with the payers of taxes.*

"In these several ways may even such great evils as are brought upon us by rebellion be transmuted, by a wise alchemy, into various forms of utility. The Secretary has endeavored to use this alchemy; with what success the country will judge when time and trial shall have applied to his work their unfailing tests."

Not only did Mr. Chase not regard $400,000,000 as too large a volume of national notes or greenbacks, but in the course of his report he recommended certain modifications of the law, among which was a provision giving "a simple authority to the Secretary to ascertain from time to time the amounts destroyed or lost, and to replace them by new issues." He did not believe in sudden contraction of the currency, either deliberate or accidental, but knew the value of a sufficient volume of the medium of exchange, and the importance to trade of its steady maintenance. Am I asked how the Secretary hoped to place the whole of the national debt "in bonds bearing a very moderate interest, and redeemable at the pleasure of the Government after very brief periods, *or perhaps at any time after their issue*"? If so, I refer my interlocutor to the report from which the foregoing quotations have been made. He will find by reference to page 16 that it was by the adoption of the convertible bond system, the support of which has brought upon me such derision from the organs of the foreign bondholders and their American allies.

He called them temporary loans, and a provision of the statute which provided for their issue required ten days' notice of intention to present them for redemption; but experience proved that this was an unnecessary restriction, and the Assistant Treasurer at New York gave notice that they would be paid on presentation without notice. They were thus in all respects convertible bonds, such as are advocated by those who are known as the friends of the "rag baby," and the unlimited issue of which, as was recommended by Secretary Chase, would, by keeping our debt at home, have prevented the mortgage of the land and productive power of the country to foreigners. As to the safety of this system, its great value to the commerce of the country, and to those whose small earnings need a safe place of deposit, he was most explicit, saying:

"The limits of deposits for temporary loan are fixed at $100,000,000. The amount of this deposit on the first day of December had been reduced to $45,506,120.01, and payments of $10,000,000 had been made from the reserve. The additional payments will be confined within the narrowest possible limits, and can hardly exceed $25,000,000. The reflow of deposits has already begun, and will probably soon exceed reimbursements, and so arrest payments from the reserve. The whole reflow beyond the amount of these payments will be available as part of the additional loan required, and may be stated without much risk of mistake at $25,000,000. *The Secretary perceives no solid reason for retaining the restriction on loans in this form to $100,000,000. It may, as he thinks, be usefully removed.* As the advantages of these deposits become better and more generally understood, the loan in this form will, doubtless, in the absence of restriction, be largely increased, and the possibility of demands for reimbursements beyond means to meet them can be fully provided for by an increase of the existing proportion between deposits and reserve.

"*Such an arrangement, the Secretary inclines to think, would operate beneficially by increasing the amount of currency when unusual stringency shall require increase, and reducing its amount when returning ease shall allow reduction.*"

Notwithstanding the length to which this communication has grown, justice to the subject requires me to extend it. To the weight of Mr. Chase's great name I wish to add that of another, whose death took from us one of the most sagacious counselors of the American people. I refer to Horace Greeley. How Mr. Chase's temporary loan system, which is, as I have shown, identical with the convertible bond system, would affect the commerce and general industries of the country, was set forth by Mr. Greeley with a clearness which I cannot hope to attain; and I therefore close this communication with an article from his pen, which appeared in the New York *Tribune* of Nov. 9, 1871, and which the present managers of that paper will not, in response to any amount of persuasion, reproduce, but the existence of which they have frequently denied:

"HOW TO REDUCE THE INTEREST ON THE NATIONAL DEBT.

"Mr. Boutwell's plan of funding the national debt has had a pretty fair trial. True, the times have been adverse, but we have generally found them so when we needed to borrow money.

"The sum and substance of the Secretary's success is the funding of $200,000,000 at five per cent. on the payment of a bonus of 1½ per cent. to the syndicate of foreign bankers who have agreed to take the loan. We would not disparage this achievement, for we regard it as decidedly better than nothing. Add to the interest ($3,000,000) $1,000,000 more for the aggregate cost of printing the new bonds, advertising, explaining and commending the loan, and the entire cost of funding the $200,000,000 at 5 per cent. for ten years, is $4,000,000. It seems to us that this does not justify a hope that our $1,500,000,000 of instantly or presently redeemable sixes can be promptly funded even at 5 per cent.

"Having given to the Secretary's efforts a hearty support throughout, we urge that a radically different plan may next have as fair a trial. Before we send another bond abroad to be hawked from banking house to banking house throughout Europe, we ask the Government to try—just earnestly to try—to fund the bulk of our debt at home. We could not have sold our bonds during the dark hours of our civil war to Europe at any price, no matter how ruinous, if we had not first shown our faith in them by taking hundreds of millions of them ourselves. So now, having seen how reluctantly they take our reissues at 5 per cent., with discount, let us show them that we stand ready to take a larger amount at a lower rate of interest at par. Here is the gist of our proposition.

"Let Congress make our greenbacks fundable, at the pleasure of the holder, in bonds of $100, $1000 and $10,000, drawing interest at the rate of one cent per day on each $100 (or 3.65 per annum), and exchangeable into greenbacks at the pleasure of the holder. Now authorize the Treasury to purchase and extinguish our outstanding bonds so fast as it is supplied with the means of so doing by receipts for customs or otherwise, and to issue new greenbacks whenever larger amounts shall be required, every one being fundable in sums of $100, $1000 or $10,000, as aforesaid, at the pleasure of the holder, in bonds drawing an annual interest of 3.65 in coin per annum, and these bonds exchangeable into greenbacks whenever a holder shall desire it.

"The benefits of this system would be these:

"1. Our greenbacks, which are now virtual falsehoods, would be truths. The Government would pay them on demand in bonds as aforesaid, which is in substantial accordance with the plan on which the greenbacks were first authorized.

"2. Every person having greenbacks for which he had no present need would present them at some sub-treasury and exchange them at par for these bonds. Suppose he has $10,000, which he expects to use a month hence, he can make them earn him $30 meantime, without incurring the smallest danger of loss by bank failures or otherwise, and with a positive certainty that the money would be ready for him whenever he chose to take it.

"3. A merchant leaves New York with $1,000,000, which he proposes to invest in wheat at the West or in cotton at the South. He calls at our sub-treasury, exchanges his greenbacks for these bonds, and takes or sends these to Chicago, Saint Paul, New Orleans or Galveston, to be ex-

changed for use when needed. After looking about for a month, he buys half the produce he originally intended, converts half his bonds into greenbacks, receives $50 per day, or $1500 in all, as interest, and makes his payments. After traveling and looking about for another month, he invests the remainder of his capital, receives $3000 as interest thereon for the two months he has held the last half million of bonds, and lays his course homeward. His bonds may have lain nearly all the time he owned them in the vaults of some bank; but they were earning money, not for that bank but for him.

"4. Our greenbacks, no longer false, but convertible at pleasure into bonds bearing a moderate gold interest, and exchangeable as aforesaid, could not fail to appreciate steadily until they nearly reached the level of gold. Indeed, they would, unless issued too profusely, be really better than gold. Drawing a higher rate of interest than British consols, and convertible at pleasure, as these are not, they would in time obtain currency even in the Old World.

"5. The trouble so inveterately borrowed by thousands with respect to over-issues, redundant currency, etc., would (or at least should) be hereby dispelled. If there were at any time an excess of currency, it would tend to precipitate itself into the bonds aforesaid. If there should ever be a scarcity of currency, bonds would be exchanged at the Treasury for greenbacks till the want was fully supplied. Black Fridays and the locking up of greenbacks would soon be numbered with lost arts and hobgoblin terrors.

"6. Though the demand for these bonds might for months be moderate, their convenience and manifest utility would soon diffuse their popularity and stimulate an ever-widening demand for them. They would be a favorite investment with guardians and trustees who should expect to be required to pay over the funds held by them at an early day, whether fixed or uncertain. They would say, though I might invest or deposit these funds where they would command a higher interest, I choose to place them where I know they will be safe and at hand when called for.

"7. Ultimately, we believe they would become so popular that hundreds of millions of them would be absorbed at or very near the par of specie, and that with the proceeds an equal amount of our outstanding sixes might be redeemed and canceled, without advertising for loans or paying bankers to shin for us throughout Europe. The interest thus saved to our country would be an important item.

"Such are the rude outlines of a plan which we did not originate, but which we heartily endorse. Why not give it a trial? We should dearly like to inform Europe that, since she seems not to want any more of our bonds at 5 per cent., we have concluded to take the balance ourselves at 3⅔."

To the Editor of the IRON AGE—Dear Sir: The number of letters of inquiry and suggestion I have received from your readers since you were kind enough to lay before them my paper on "The Authors and Causes of the Financial Depression," is my justification for appealing to you for the privilege of again communicating with them. Surprise is expressed by one of your readers that the support of a measure which had been so earnestly approved by Secretary Chase and Horace Greeley should have

caused papers like the New York *Tribune*, the paper Mr. Greeley founded, its namesake of Chicago, and the Cincinnati *Commercial* to brand me as a lunatic and to make me the object of almost universal derision and caricature, as they had done.

In common with your readers you will probably be surprised to learn that Secretary Sherman, then Senator from Ohio, was among the earliest and ablest advocates of the convertible bond theory, and as he thus held views more in accordance with the then prevalent financial opinions than those of the late William Pitt Fessenden, was made to displace that distinguished gentleman from the chairmanship of the Finance Committee of the Senate. Senator Sherman in supporting the measure appealed, as you will see by the following extract from his speech of February 27, 1868, to right and duty as well as to expediency:

"I desire now to make a few observations in regard to the sections of the bill relating to the United States notes, and these I consider as vitally important. We propose to restore to the United States note the right to be funded at the pleasure of the holder into the new bonds whenever he desires. There is more ground of discontent and more real discontent among the people of this country because of the discrimination made between the bondholder and the holder of the greenback than from any other cause. You compel every citizen of this country to take the greenback as money, willing or unwilling. It is the measure of the value of his labor, and yet it has no purchasable power except the hope that in some future time the United States will redeem it. It may be forced upon another man in payment of a debt; it may be applied to pay taxes, but it cannot be converted into income except at a discount.

"A man cannot take United States notes payable on demand to any broker and receive in exchange any form of security issued by the United States. There is a wide discrimination made between the bondholder and the noteholder, which gives rise to popular clamor and is the cause of a great deal of just complaint. In 1863 we were compelled for wise purposes to take away the right of the holder of the greenback to fund it, because we wished then to force our loans upon the market, and while that right was outstanding we could not do it. Now that the war is over, that the whole process of funding is intended to be voluntary at the discretion of the noteholder, we ought promptly to restore this right to allow the note to be converted at any time into some kind of bond; and we propose, also, to allow the bond to be converted into notes, keeping within the limits of notes fixed by law. Then there is no discrimination; the bondholder and the noteholder are both public creditors; both depend upon the public faith. The noteholder may go to the treasury of the United States and demand his bond; the bondholder may go also and demand his note. They are put on a basis of equality. This destroys all speculation in government securities. Both will then stand on the same footing, and both will be of equal value. The noteholder may, at his option, draw interest in gold by converting it into bonds; and the popular cry of demagogues, that we have provided gold for the bondholder and notes for the people, will be silent.

"And, sir, there is no reason why the note issued to the laboring man

should be less valuable than any other form of government security. It makes one of those salient points before a popular audience just and correct, which is the cause of complaint, and will be until it is removed. An important effect of this provision will be to furnish money to redeem the bonds or any other securities that offer, and without resorting to a sale of bonds. I do not propose, nor do the committee contemplate, the issue of any new greenbacks. We propose that the process of funding these notes, they pouring into the treasury, will furnish ample means to redeem all the outstanding bonds and securities as they become redeemable. I have no doubt the same process will go on here that occurred in Europe—a very small amount of money will pay a large amount of bonds. The mass of the bonds will be exchanged without money. The transactions paid by money, compared with the transactions paid by checks and other forms of paper, are as one to a thousand. The daily balances in the exchanges in the New York clearing house amount to many millions, and yet the amount of currency to pay these balances is often less than one per cent. of their nominal amount. Other reasons may be given for the new feature of this bill, giving the holder of these bonds the right to convert them into notes. This is indispensably necessary to guard against sudden contraction and panic. There are times when the notes will float into bonds so rapidly as to contract the currency, and thus derange business and prevent the movement of crops. This privilege will give flexibility and movement to the currency of the country. Every exchange will be a benefit to the country. If the holder of a government security bearing interest surrenders it to the Treasury for a note without interest the United States saves the interest. If, on the contrary, the notes are funded for a bond, the notes may be used in the redemption of other bonds bearing a higher rate of interest. If the money market becomes stringent, if currency becomes scarce, the holder may be willing to surrender his bond, bearing five per cent. interest in gold, in order to get currency with which to pay his debts, and why not give him that privilege? It is a benefit to the United States, and it is the only mode by which, during the suspension of specie payments, we may make a flexible currency.

"And, sir, this loan will be the great saving fund of the people of the United States. Every man having money for a time idle will float it into these ten-forty bonds, and while we have the money we shall pay off bonds having a higher rate of interest. When he desires it again he can come back and get the bond, and so this operation may be carried on with perfect safety. Now the deposits in the savings banks amount to over $500,000,000. Why should not this money be deposited in the Treasury? Why should not these little streams of the savings of the laboring man help to float the public credit? The government of the United States ought not to feel too high to acknowledge the services of such a fund. They will be useful. They will enable the depositor to get the full value of his money. Now he deposits in savings banks where he gets four or five per cent. interest in paper money. Under this provision he may put his money in these bonds, and the money thus deposited will enable the government to pay off bonds bearing a higher rate of interest. In every view we could take of this proposition, after the most ample consideration, we (the Finance Committee) thought it was a wise provision, and would work well. The trouble and

cost of printing these bonds and exchanging them one for another, being carried on at the Treasury Department or at the depositories or other proper places of exchange, will be done without cost, except that of printing. It is purely voluntary, and will be adapted to the wants of trade. It will tend to give increased value to the United States notes, and my firm conviction is that under the process both notes and bonds will gradually rise, step by step, until they reach the standard of gold, and then the whole process ceases, according to the provisions of the bill. I look upon this provision as the most rapid way to specie payments."

These were not casual or hasty utterances. They were made in the course of a two hours' speech in support of a bill the speaker had reported from the Committee on Finance; and, inasmuch as Mr. Sherman was interrupted with questions (not, however in this part of the speech), it was withheld for several days for revision, and appears in the appendix to the *Congressional Globe*, second session, Fortieth Congress, pages 187 and 188.

Are the American people ready to believe that Chase and Greeley in the very prime of their intellectual vigor were lunatics, and that he who now administers with such terribly destructive power the finances of this government had, before the opening of 1868, been bereft of reason? Or, in deference to the memories of the great dead, and respect to the most potent citizen of the Republic, will they cease to brand the humble disciple of these men as one fit for a "straight jacket," and one who requires "bladders of ice about his fevered temples" when he travels? Should the organs of the contractionists, who have treated me with such want of candor, in this connection invite attention to the fact that Senator Sherman spoke of gold interest, those who have heard me speak on the subject or read my writings, will bear witness that I have always said if it were deemed preferable to make the interest payable in gold, so be it; but as my object was to diminish the difference between our paper and gold, I preferred to add a new use to the paper dollar, and withdraw one from the commodity which had long since ceased to circulate as money in our country. Hoping you will pardon this liberty, I remain,

Yours, very truly, William D. Kelley.

FRENCH FINANCE.

[*A letter to the Philadelphia Times.*]

To the Editor of The Times:

In grateful compliance with your request I avail myself of the earliest leisure to reply more precisely than I could without reference to official papers to your questions as to the causes of the wonderful power of France as shown in her payment, in anticipation of the time named by

her conqueror, of the enormous war fine inflicted upon her, and the maintenance of the industries of the people during the war and the succeeding interval, which has been one of such terrible financial depression to Germany, the recipient of the fine, and to Great Britain and the United States.

Any discussion of French finance would be delusive which did not keep steadily in view the fact that under all changes of dynasty and forms of government since the days of Colbert, the labor of France has been protected by the most elaborate and ingenious tariff and system of prohibitions ever devised, and that, until the making of the first commercial treaty with England in 1860, the importation of immense numbers of articles of foreign manufacture was prohibited, and that many of the prohibitions which were until then applicable to all countries still exist in her general tariff, which regulates importations from non-treaty nations. Thus the importation of American cutlery is prohibited by the law of December, 1796, which has not been disturbed during the long interim; and while our raw cotton is admitted free as material for manufacture, our cotton yarns and fabrics are excluded by a prohibition established in 1809.

Another primary fact in this connection must also be remembered—the patronage of art by the French government. The diffusion of a love of art and the knowledge of its laws among the producing classes secures a maket for French fabrics and wares when the home and foreign markets of other nations are shrinking, as those of Germany, England and the United States now are, and have been for the last three years. While these suffering nations offer substantial commodities, heavy cottons, weighty woolen goods, etc., France commands markets for her lighter commodities by the genius, taste and skill with which a smaller amount of material is wrought into equal superficial quantities and so embellished as to commend them to the admiration of the world. This blending of art with utility not only secures to France universal markets, but enables her to send imponderable things, such as genius, taste, art and skill, which may be carried to the most distant commercial countries without such freight charges as burden the heavier goods produced elsewhere. Thus much as an essential preliminary.

THE BASIS OF FRENCH FINANCE.

The distinguishing characteristic of the financial policy of the French government is found in the fact that it assumes the duty of preventing alternate periods of inflation and their inevitable consequent contraction, and that to accomplish this end, whenever war or other exigency has caused an issue of irredeemable paper, it has invested such issue with the character of legal tender—made it available for all purposes to which

money could be applied in France, whether the transactions were between citizens or between citizens and the government or vice versa—and has taken measures to prevent the withdrawal of the paper until a continuous balance of trade has brought into the country metallic money enough to supply the channels temporarily filled by the paper money with which the exigency had been met. Colbert taught the French people, and Napoleon emphasized the lessons of Colbert, that it is labor that supports government and society, and that to arrest the employment of productive industry is to impoverish the public treasury and produce discontent and possible disorder among the people. And I hesitate not to say that had this lesson been borne in mind by our government—had our paper money been, as the House of Representatives when providing for the issue of the greenback insisted that it should be—received by the government in payment of all dues, and had there been no attempt to retire any part of the paper which had been invested with the character of legal tender until a metallic substitute had been purchased by the export of our surplus commodities, we should never have been without the free use of gold and silver at a rate of premium no greater than that which has prevailed in France, where it never exceeded two and a-half per cent., and that but for a brief period; and that the question of the resumption of specie payments would have been one of as little consequence to the American people as it is now to the French people, who use gold, silver and irredeemable bank notes interchangeably. Indeed, it is a fact that, while the government will not permit the bank to close the operation by which its notes were made legal tender, the bank will not, without a compensatory premium, receive any considerable amount of gold or silver in exchange for its notes, because it holds an excess of bullion, and there is a tax of $1.50 on $1,000 on its circulation. We pay our banks 4, 4½, 5 and 6 per cent. for issuing notes which the government furnishes them. France, even in the greatest of her exigencies, maintains her power over the money of the country by demanding a slight tax upon circulation whenever she authorizes the bank to issue notes irredeemable, as our national bank notes are, and pays the bank but 1 per cent. on the amount of such notes loaned it when first issued.

Great Britain and the United States adopt another and opposite financial policy. They restrict the volume of legal tender money to the narrowest possible limits available as a basis for bank circulation, and compel the enterprising and producing classes to pay tribute to capitalists, foreign or native, for credit upon which to conduct their undertakings. France seeks to give the whole people money; we, following the example of England, seek to compel them to use credit, or currency obtained through banks at such rates of discount as may prevail.

THE GERMAN SYSTEM.

Germany, prior to the war, was as free from commercial and financial crises as France had been. Her financial system was kindred to that of France. Her circulation consisted of silver money and bank notes. The great volume of paper met with in circulation was notes of small denominations, many of them for less than $1 American money. But after the war she discarded both silver and small bank notes, ordained a gold currency, established the Imperial Bank, and prohibited the issue of any bank note for less than the equivalent of £5 or $25; and the mere attempt, ineffectual as yet, to carry out this scheme, has reduced both government and people to a condition contrasting painfully with that which they exhibited for years before this mad experiment was undertaken. I now proceed to exhibit some of the facts from which these conclusions have been deduced.

FRENCH PRECEDENTS.

After the French Revolution of 1848, on the night of the 15th of March, the Republic, by decree, made the notes of the Bank of France a legal tender, limiting the issue to 350,000,000 francs, and reducing the denomination of the smallest notes to 100 francs, or $20. One of the great difficulties mentioned in the official report of the transaction and its effects, was to print these 100-franc notes fast enough for the public consumption, though in ten days the amount issued in this form had reached 80,000,000 francs; and in a very able article in the London *Times* on the 16th of February, 1849, a writer for that paper, which one year before had deprecated the decree as visionary and one that must inevitably lead to the destruction of the commerce and industries of France, said:

"M. D'Argout resolved to make every effort to keep alive what may be termed the *circulation of the life blood* of the community. Money was to be found to meet not only the demands on the bank, but the necessities, both public and private, of every rank in society. It was essential to enable the manufacturers to work, lest their workmen, driven to desperation, should fling themselves among the most violent enemies of public order. It was essential to provide money for the food of Paris, for the pay of the troops, and for the daily support of the *ateliers nationaux*. A failure on any one point would have led to a fresh convulsion."

As illustrative of the truth that it is labor and not coin that maintains society and governments, I cite another brief passage from the article in the *Times*:

"No sooner was the bank relieved from the necessity of paying away the remnant of its coin, than it made every exertion to increase its metallic rest. About forty millions of silver were purchased abroad at a high price. More than one hundred millions were made over in dollars to the Treasury and Executive Departments in Paris. In all, taking into account the branch banks, five hundred and six millions of five-franc

pieces have been thrown by the bank into the country since March, and currency was thus supplied to all the channels of the social system."

Had the government refused, as ours did, to receive the notes which it had made legal tender among the people, gold and silver would have gone to such a premium that the bank, instead of buying specie, would have sold it, as our banks did, whereby some of them were enabled to declare dividends of one hundred per cent.; but as paper, silver and gold were at par with each other, the bank could buy bills of exchange on foreign countries from French merchants, and thus procure the specie with which it should soon resume cash payments.

But the recent experience of France, as to which you more particularly invited an expression of my views, is even more striking than the foregoing.

The war between France and Germany was declared July 19, 1870, and was terminated by the treaty of May 10, 1871. In April, 1870, the circulation of the Bank of France was $288,750,000, and it held of specie and bullion $261,550,000. In August the government required it to suspend specie payments, and by the same decree made its notes a legal tender. The first statement published after peace had been restored showed a circulation of $442,000,000, with $110,000,000 of specie. In consideration of the suspension of specie payments and the use of its notes as legal tender, the bank loaned the government $306,000,000, at one per cent. interest, and agreed to pay the tax above referred to on its entire circulation. When, in August, 1870, the French armies had been defeated, and consternation had seized upon the people of Paris, the Bank of France and the other credit institutions of that city entered into co-operation, and determined as a matter absolutely necessary to the maintenance of society to make liberal advances to the people, and within a fortnight, advanced 180,000,000 francs, ($36,000,000), and it is a matter of history that not a single failure of moment took place in France pending the use and liquidation of these loans. If you ask to whom these immense advances were made, I answer in the language of the late Thomas Balch, Esq., whose long residence in Paris made him familiar with the financial magnates of Europe, and as communicated to J. W. Schuckers, Esq.:

"To merchants, manufacturers, shopkeepers, artisans and mechanics; to any citizens, indeed, whose books showed that their business during a sufficiently long period had been fairly prosperous, and whose industry and integrity were established, and of course much importance was attached to this latter fact. Many of the advances to artisans and mechanics were made without indorsement or collateral at all; on no other security, indeed, than a fair business and an honest name. The effects of this extraordinary operation were of commensurate public importance. In the midst of the most frightful and accumulated military and political calamities, in the gradual environment of the French capital by the German hosts, the trade and labor of France were preserved and even stim-

ulated; and it was altogether owing to this patriotic and most sagacious audacity that, in a period of special and terrible trial, no noteworthy commercial or industrial failure occurred, and that France was afterward enabled to provide for the payment, without serious difficulty, of an indemnity intended permanently to crush her, and which excited by its magnitude the astonishment of the whole world."

The decree of legal tender (*cours forcé*) fixed the maximum of the issue of the bank at $480,000,000. It was, however, increased by the law of December 29, 1871, to $560,000,000, and finally by the law of July 15, 1872, to $640,000,000. What effect had the issue of this vast amount of paper money on the premium on gold? Did it, in accordance with the theory of Secretary Sherman and the British economists our free-traders and bullionists so delight to honor, expel the precious metals from France? Or did it show that their wisdom is folly, and that their so-called science, which John Stuart Mill, truly said was "a science based on assumptions," is no science at all, but a mere mesh-work of human reason based on false and delusive assumptions? Fortunately the facts of history speak on this point with no uncertain sound.

In November, 1871, when a large payment on account of the war fine (which, as you know, amounted, with interest and charges, to $1,100,000,000, in addition to the transfer to Germany of the magnificent provinces of Alsace and Lorraine and their wealthy and industrious people) was due, the premium on gold rose to its highest point, 2½ per cent., at which, to the French people, exorbitant rate it remained for but a few days; and when the irredeemable circulation had subsequently been increased from $460,000,000 to $490,000,000 the premium fell to 1 per cent.; and in October, 1873, when the volume of notes had actually reached $614,000,000, the premium was merely nominal, and was only demanded on large sums. Legal tender, gold, silver and paper money, were then circulating in common and at par with each other. As I have said, the war fine amounted to $1,100,000,000. The total cost of the war to France has been officially estimated at $2,000,000,000, and the direct loss to agriculture at $800,000,000; yet the last payment on account of the war fine was made on the 5th of September, 1873, or in two years and four months after the conclusion of the treaty of peace. Does history present any such striking illustration as this of the harmony of the interests of a State and its people? The advance of the banks to the manufacturers in August, 1870, enabled them to maintain their industries, and by paying living wages to place the whole people in a position to not only respond to the demands of the government for taxes, but to meet its call for two loans, one for $550,000,000 and the other for $827,000,000, the tenders in response to the latter call amounting to the fabulous sum of $8,600,000,000, or four times the amount of the national debt of the United States.

THE TRANSFER OF BULLION.

But omitting many facts that would be pregnant and instructive, I must, in view of your limitation as to space, hasten to a conclusion. The German Empire entered upon what may prove to be a fatal experiment when, under the mistaken notion that she was to receive the bullion then held by France with that which she might earn in the time stipulated for the payment of the fine, she determined to establish a gold currency, demonetize silver, and to exclude small notes from circulation. The highest estimate I have seen anywhere of the loss of the precious metals by France in the payment of the war fine is $240,000,000, but that this estimate is excessive is shown by French and other official figures. The French Government shipped $100,000,000 of specie and bullion directly to the German Government. Yet the tables of the two countries, and they are confirmed by the British tables of exports and imports of specie, show that France lost from her intercourse with Germany, from January 1, 1871, to December 31, 1874, but $140,000,000 in gold and silver.

This is the statement of M. Leon Say, made during the time he was Finance Minister, which he continued to be till MacMahon changed his Cabinet. Great Britain took temporarily some of the French rentes, as she has during the present depression taken our 5, 4½ and 4 per cent. bonds, to be held as certificates of deposit on call. Between January 1, 1871, and December 31, 1874, the dates just referred to, she sent $110,000,000 more of gold and silver to Germany than she drew from her. Assuming, which there is no good reason for doing, that all this went on French account, and it appears that Germany received but $250,000,000 of cash from France in payment thereof. The truth is that France being, for the reasons stated in my introductory remarks, the creditor of all commercial nations, paid Germany in bills drawn against foreign debtors by the French people, or, in other words, Germany was paid in foreign merchandise, the imports of which in excess of exports, from January 1, 1870, to December 31, 1874, having been, according to the Bavarian *Vaterland*, $1,132,000,000. Many of the earliest of these bills were drawn against German merchants and bankers, and served to transfer money which had been in circulation in Germany to the Imperial Treasury, and thus withdraw it from commercial use. Thus the industrial and financial sagacity of the French Government enabled France to revenge herself upon Germany by the methods with which it settled the unconscionable war fine imposed upon her.

AN INSTRUCTIVE STUDY.

The legal and actual condition of the Bank of France at this time furnishes an instructive study for those of our statesmen who are endeavoring to bring about a resumption of specie payments by so contracting our legal tender paper as to further reduce the price of wages and commodities, which are already below hard-pan, or the prices which ruled in the days of 1859-60, when our bank paper was supposed to be convertible into specie on demand. The Bank of France is burdened with an excess of gold, in addition to which, it is said, she holds $100,000,000 of silver,

which, like gold and paper, is legal tender; yet the law will not permit her to resume specie payments until January 1, 1878. She does now, and has for nearly two years, paid in gold or silver sums of 1,000 francs or less, and, to escape the tax on circulation, would have resumed more than a year ago had the government consented. As this statement may seem incredible to those who are not familiar with the facts, it may be well to state that the latest returns of specie held, and they are but three weeks old, coming down to August 30, show that the Bank of England holds $125,146,000, the Bank of Germany $133,845,000, the Bank of France $442,483,000. Thus it appears that, allowing $100,000,000 of the bullion in the Bank of France to consist of silver, and assuming, what is very far from the fact, that none of the bullion in the banks of England and Germany is silver, it is shown that the Bank of France has, by the aid of irredeemable paper, by which the industries of France were kept active, accumulated nearly $100,000,000 of gold more than the united stock of the banks of England and Germany.

Writing in July, 1873, in the *Revue des Deux Mondes*, M. Victor Bonnet estimated the metallic circulation of France at	$1,200,000,000
From Jan. 1, 1874, to June 30, 1877, France gained by import, specie and bullion to the amount of	485,000,000
August 30, 1877, the circulation of the Bank of France was	490,000,000
Giving a total circulation of	$2,175,000,000

Population of France, 36,000,000. The population of the United States being now over 47,000,000, this is equivalent to a circulation of $2,840,000,000 for this country. But it has been claimed that France has pursued the same policy of contraction as that of our Treasury Department. This is not the case. The bank is desirous of reducing its circulation by reason of the tax, and it has retired its smaller notes, in the place of which it gives specie; but has since increased the circulation of those of larger denominations, and it charges a premium for exchanging notes for bullion. Otherwise its operations are purely the result of its legitimate business with the public and the State, and the circulation contracts or expands day by day and week by week as may be necessary.* While between October, 1873, and August 30, 1877, its circulation had been decreased $124,000,000, an addition of specie and bullion *outside the vaults of the bank* had been made of $188,000,000, thus adding $64,000,000 to the money in the hands of the people, over and above that at the time of the largest circulation reached by the bank. In other words, *the bank has not taken its notes from the people without giving them an equal or a larger amount of specie instead.*

In view of these facts may not the stricken people of the United States wisely order a halt in the work of contraction, and, following the example of France, demand the repeal of the resumption act, the remonetization of silver, and the maintenance of the existing volume of our legal tender paper money, which measures will enable them to go to work at honest wages, and to earn the gold and silver with which, in due time, we can, if desirable, resume specie payments?

Yours very truly, WILLIAM D. KELLEY.

West Philadelphia, Sept. 22, 1877.

* NOTE, Oct. 29, 1877. For instance, while the circulation of the Bank, Aug. 30, 1877, was but $490,000,000, Oct. 4, 1877, it was $493,000,000. In Sept., 1875, it was but $469,000,000.